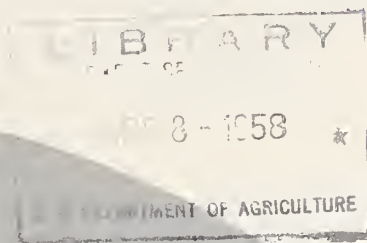


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Milk Distributors



Sales and Costs

January - March 1957

U. S. DEPARTMENT OF AGRICULTURE
Agricultural Marketing Service
Marketing Research Division

MILK DISTRIBUTORS' SALES AND COSTS

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: This report is the third of a series based upon informa- :
: tion obtained from distributors of fluid milk and cream :
: products. These distributors are subscribers to a cost :
: comparison service which furnished the Department with :
: tabular data for analyses. A uniform accounting system :
: is used and information is given on standardized forms. :
: Data reported include: Costs and quantities of raw milk :
: and other raw materials; prices and quantities of products :
: sold; and operating costs. :
: :
: The firms selected are considered to be typical in the :
: following characteristics: Privately owned, moderate :
: size and chiefly single plant firms. Very small firms, :
: national chains, and producer-distributors are not in- :
: cluded. :
: :
: All major geographic areas of the country are represented.:

In the first quarter of 1957, sales value of milk products decreased slightly from the previous quarter. The cost of raw milk and cream declined seasonally; gross profits increased about 5 percent. Operating costs have shown steady year-to-year increases since 1952. However, following their usual seasonal pattern, their costs in the first quarter of 1957 remained at about the same level as in the last quarter of 1956. These factors resulted in a seasonal increase in net margins, as compared with net margins in the previous quarter. Nevertheless, net margins in the first quarter of 1957 were lower than in any first quarter since this series was inaugurated in 1952.

SALES VALUE STABLE

Sales value of dairy products, per hundred pounds of milk purchased, has been very steady for the past 6 quarters for this group of distributors, with a total variation of less than 2 percent; the decline in the

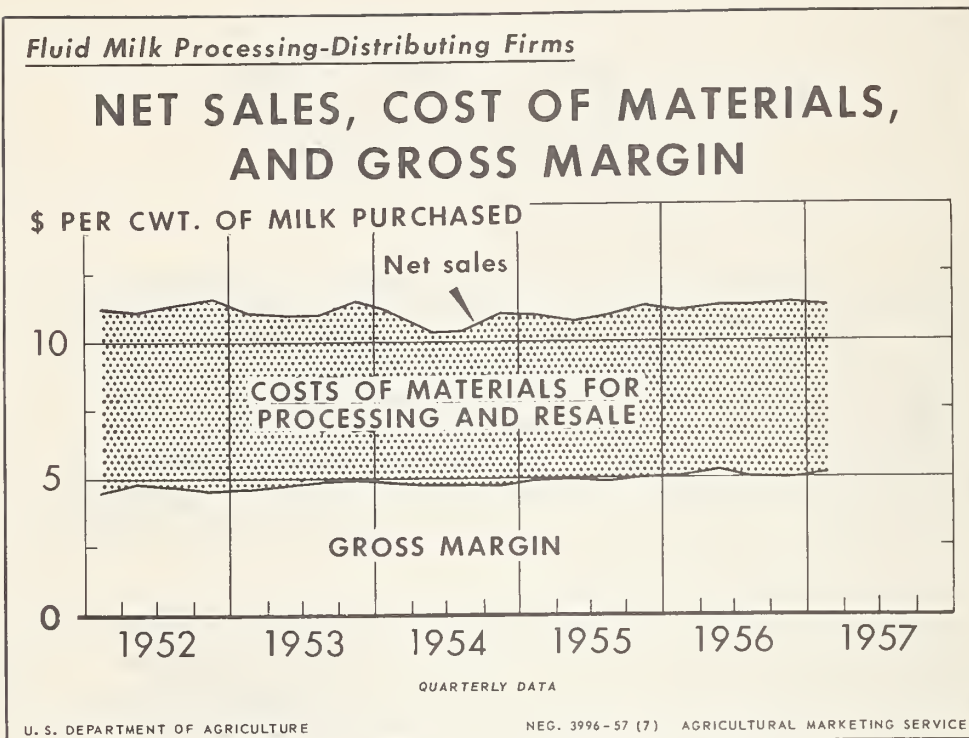


Figure 1

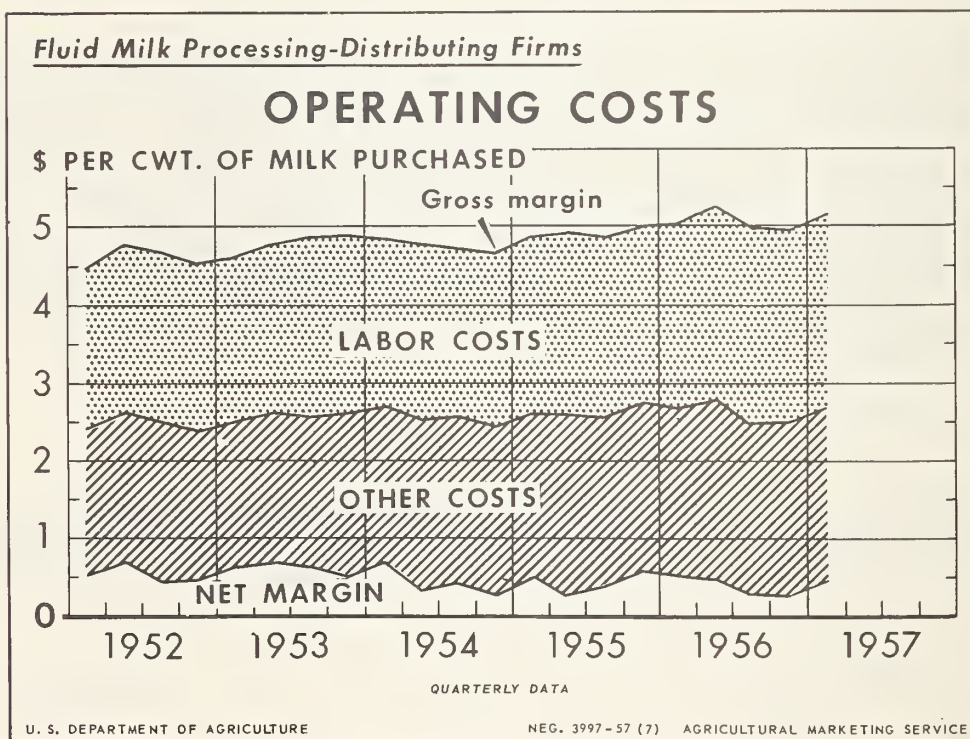


Figure 2

first quarter of 1957 was less than seasonal, resulting in a sales value of \$11.29, \$0.22 above the same quarter one year earlier. This indicates a continuation, but at a slower rate, of the upward trend beginning in the summer season of 1954.

COST OF GOODS SOLD RELATIVELY UNCHANGED

Cost of goods sold at \$6.12 per hundredweight of milk purchased, was seasonally lower--4 percent below the previous quarter. On a trend basis there has been little change during the past 2 years; this quarter, the cost of goods sold was less than 1 percent above a year ago and less than 2 percent above the same quarter, 1955. Raw milk and cream cost, at \$5.29, was \$0.27 below the previous quarter and \$0.02 above a year earlier. As a percentage of sales value of product, cost of goods sold declined, following a trend that has been almost continuous, except for seasonal changes, since 1952. The gross margin of \$5.17 was the largest of any first quarter in the past 5 years and was \$0.23 above the previous quarter.

YEARLY OPERATING COSTS CONTINUE TO RISE

Following their usual seasonal pattern, operating costs in the first quarter of 1957 were about the same as in the last quarter of 1956. Over the period 1952-1956, however, operating costs have increased at a rate of from 3 percent to 5 percent each year. Comparison of costs in the first quarter of 1957, with those in the first quarter of 1956, suggest that this trend is continuing.

All major operating costs have increased as compared with the first quarter in 1956, excepting operating supplies. Salaries, wages, and commissions, at \$2.48 per hundredweight of milk, were \$0.16 over the same quarter a year ago which is the largest year-to-year change in the first quarter during the 1952-1957 period. Container costs remained at about the same level that has prevailed since the 14 percent increase that occurred in the second quarter of 1955. Repairs, rent, and depreciation costs continue to rise, indicating that the increase in efficiency and capacity is not sufficient to offset the increase in costs of acquiring and maintaining new facilities and equipment. Other operating costs, accounting for less than 10 percent of total operating costs, declined slightly from the previous quarter but were about the same as a year earlier.

Net margin, the remainder for payment of income taxes and return on invested capital, increased seasonally from \$0.23 in the previous quarter to \$0.44 in the first quarter of 1957. This was the net result of a \$0.25 decrease in cost of goods sold, a \$0.02 decrease in sales value and \$0.02 increase in operating costs. First quarter, 1957, net margin, lower than the same quarter for each of the previous 5 years, indicates a continuation of a downward trend.

Table 1.--Trends in operating costs per hundred pounds of milk and cream processed by a selected group of dairy firms, by years, 1952 to 1956, and by quarters, January-March 1956 to January-March 1957

Cost item	1952	1953	1954	1955	1956	1957			
						Jan.-	July-	Oct.-	Jan.-
						Mar.	Sept.	Dec.	Mar.
	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.
Net sales.....	11.32	11.12	10.69	10.95	11.22	11.07	11.24	11.31	11.29
Cost of raw materials									
Raw milk and cream...	5.85	5.43	5.07	5.12	5.30	5.27	5.29	5.56	5.29
Other.....	.86	.90	.86	.94	.88	.80	.98	.81	.83
Total.....	6.71	6.33	5.94	1/6.05	1/6.18	1/6.07	1/6.27	6.37	6.12
Gross margin.....	4.61	4.79	4.75	4.91	5.04	5.00	4.97	4.94	5.17
Operating costs									
Salaries, wages, and commissions 2/.....	2.15	2.19	2.21	2.28	2.43	2.32	2.44	2.46	2.48
Containers.....	.60	.62	.65	.70	.72	.71	.76	.71	.73
Operating supplies....	.30	.32	.35	.32	.28	.28	.29	.28	.29
Repairs, rent, and depreciation.....	.50	.52	.57	.60	.64	.63	.65	.65	.66
Taxes.....	.06	.06	.06	.06	.05	.05	.05	.05	.05
Insurance.....	.02	.02	.03	.04	.04	.03	.03	.04	.04
Services.....	.16	.19	.19	.18	.17	.15	.19	.16	.15
Advertising.....	.15	.15	.16	.18	.19	.19	.18	.18	.18
General.....	.15	.13	.13	.14	.16	.15	.16	.18	.15
Total.....	4.09	4.20	4.35	4.50	4.68	4.51	4.73	4.71	4.73
Net margin 3/.....	.52	.59	.40	.40	.36	.49	.24	.23	.44
Firms reporting.....	43	51	75	83	80	80	80	80	80

1/ Revised.

2/ Includes State unemployment, Federal old age, workmen's compensation, and employee benefits.

3/ Net returns to owners before income taxes.

PRICES PAID FOR RAW MILK

Distributors paid an average of \$5.26 per hundredweight for raw milk used for Class I purposes during 1956. This price was adjusted for butterfat differentials and does not include premiums (table 2). During the year the prices ranged from a low of \$4.93 in April to a high of \$5.45 in November and December. The variations resulted from changes in the basic price and in the butterfat content of the milk used. The data indicate a definite seasonal pattern in the butterfat content of milk utilized in Class I; present analysis does not show whether this resulted from changes in butterfat content of the individual products or from changes in the product mix of Class I, or both; it is possible that sales of skim milk, buttermilk, chocolate drink, and other low fat products are of greater relative importance in the summer months. Comparable seasonal patterns in butterfat content are not so evident for other class uses.

Table 2.--Prices paid by distributors for raw milk, by class and by percentage of butterfat, January - December, 1956 ^{1/}

	: Class I 2/		: Class II 3/		: Class II 4/		: Class III 4/	
	:Butter: Price		:Butter: Price		:Butter: Price		:Butter: Price	
Period:	-fat :	per	-fat :	per	-fat :	per	-fat :	per
	test :	cwt. 5/	test :	cwt. 5/	test :	cwt. 5/	test :	cwt. 5/
	Pct.	Dol.	Pct.	Dol.	Pct.	Dol.	Pct.	Dol.
1956 :								
January..:	4.0	5.38	3.8	3.36	4.1	4.61	3.9	3.43
February..:	4.0	5.32	4.1	3.51	3.9	4.53	4.0	3.43
March....:	3.9	5.12	4.0	3.41	4.0	4.42	4.0	3.38
:								
April.....:	3.9	4.93	4.2	3.46	3.6	3.85	3.5	2.81
May.....:	3.7	5.09	4.1	3.43	3.6	3.87	4.2	3.50
June.....:	3.9	5.22	4.0	3.67	3.6	4.15	3.7	3.05
:								
July.....:	3.8	5.25	3.6	3.24	3.9	4.26	3.8	3.12
August...:	3.8	5.25	3.6	3.25	3.9	4.22	3.7	3.18
September:	3.7	5.34	3.7	3.35	4.0	4.39	3.4	3.14
:								
October...:	3.8	5.37	3.9	3.89	4.0	4.51	3.5	3.18
November..:	4.0	5.45	4.1	3.93	3.5	4.18	3.9	3.29
December..:	4.0	5.45	4.1	3.82	3.7	4.03	3.8	3.29

^{1/} These data are not directly comparable to data shown in table 1 which present a weighted average for all milk and cream used in all classes and includes higher prices paid for premium milk as well as premiums paid for regular milk.

^{2/} Average for all firms reporting.

^{3/} Data for firms purchasing on a 2 use classification basis.

^{4/} Data for firms purchasing on a 3 use classification basis.

^{5/} Basic price adjusted by butterfat differential to test of milk purchased.

